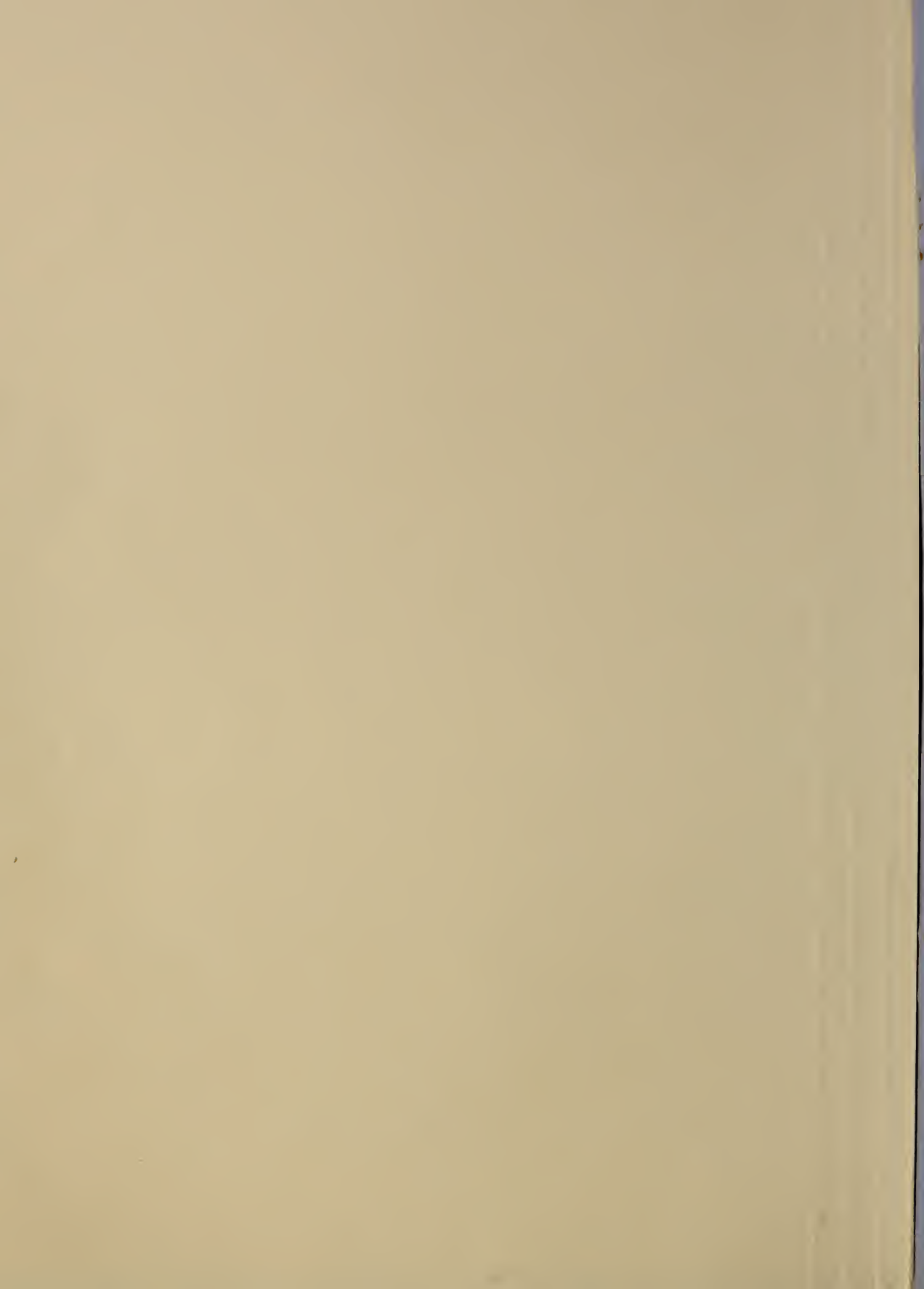


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Cap. 2

# FARMER COOPERATION

## *An American Way*



## Section G. The Business Rights to Main Street Under Private Enterprise

FARMER COOPERATIVE SERVICE and  
EXTENSION SERVICE of the  
U. S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D. C.  
In Cooperation with  
AMERICAN INSTITUTE OF COOPERATION

FARMER COOPERATIVE SERVICE  
U. S. DEPARTMENT OF AGRICULTURE  
WASHINGTON 25, D. C.

JOSEPH G. KNAPP, ADMINISTRATOR

*The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising product, quality, costs, efficiency, and membership.*

*The Service publishes the results of the studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.*

## FOREWORD

This is the seventh of a series of dramatizations, talks and demonstrations developed to assist youth groups and their leaders in farm business training programs...with special emphasis on farmer cooperatives.

The "off the farm" or the "beyond the line fence" phases of farming have greatly increased. Also, as smaller portions of the products of the farm are consumed at home, these activities are expanding. Through their cooperatives, farmers increase their participation in this "off the farm" business.

On the recommendation of both cooperative and educational leaders in 1950, the Director of the Federal Extension Service appointed a committee to develop a program in farm business training for these youth groups and to prepare material for their use. As dramatizations, illustrated talks, and demonstrations had proved so effective in other extension youth training programs, the committee recommended them for this program.

Officials of the U. S. Office of Education; supervisors, teacher trainees, and teachers of vocational agriculture; and supervisors and instructors of veterans over the past few years have developed extensive programs in teaching cooperation as part of the off-farm business training. These programs emphasize the "learning by doing" methods of teaching.

The various sections of FCS Educational Aid 1 were prepared to supply material for these programs.

The dramatizations, illustrated talks and demonstrations in all sections of this circular are suggested as guides only. They are not meant to be memorized but to be given in the speaker's own words. It is expected that the member or leader will adapt what he says to the local situation for the different points made. Some may well be left out and others expanded or additional ideas presented.

One group will probably not be interested in all the activities. Thus it was thought best to issue the demonstrations in sections.

Section A. Contains dramatizations on "The Way of the Pioneer" and "Cooperation Lights and Lightens Housework."

Section B. Contains illustrated talks on "Purchasing Feeds" and "Four Kinds of Business Firms."

Section C. Contains demonstrations on "The Use of the Revolving Fund for Financing Farmer Cooperatives" and "Parliamentary Procedure."

Section D. Contains an illustrated talk on "The Way Farmers Do Business."

Section E. Contains an illustrated talk on "The American Private Enterprise System."

Section F. Contains group demonstrations on "The Co-op Tour as an Educational Activity" and "Organizing a Junior Cooperative."

Section G. Contains an illustrated talk on "The Business Rights to Main Street Under Private Enterprise."

The presentations developed in Sections A, B, C, D, and F are suggested for older teenagers and for young people beyond 4-H Club age. Section E has been designed for use by 4-H Club leaders and can be adapted to all age groups. Section G may be presented to any group including meetings of farm and civic organizations.

# THE BUSINESS RIGHTS TO MAIN STREET UNDER PRIVATE ENTERPRISE

J. H. Heckman  
*Membership Relations Branch  
Management Services Division*

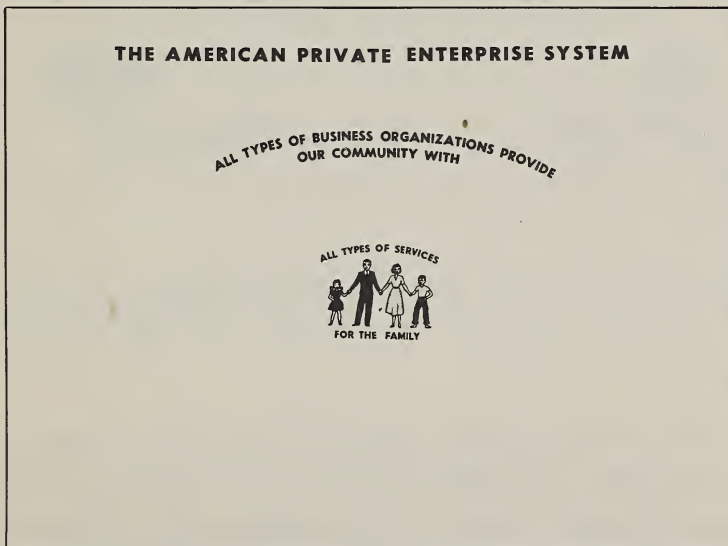
This talk with five colored slides<sup>1</sup> describes the four main types of business in American industry and their relationships on Main Street.

Speakers A and B take turns in presenting the various sections and show the colored slides at the points indicated in the talk. However, one person can present the entire script. Each speaker may tell this story in his own words, and adapt it to his local situation.

## SPEAKER A

We will try to answer a few questions about business rights and relationships which might help the many occupants of Main Street -- or the business world -- to understand each other better. Honest misunderstandings have caused many disagreements.

(Project first slide shown here)



Let's consider just who the American private enterprise system is designed to serve. In the center of the slide, we see the American family. If any business venture is to continue, it must benefit its owners financially. However, this is just the vehicle or the motivating agency

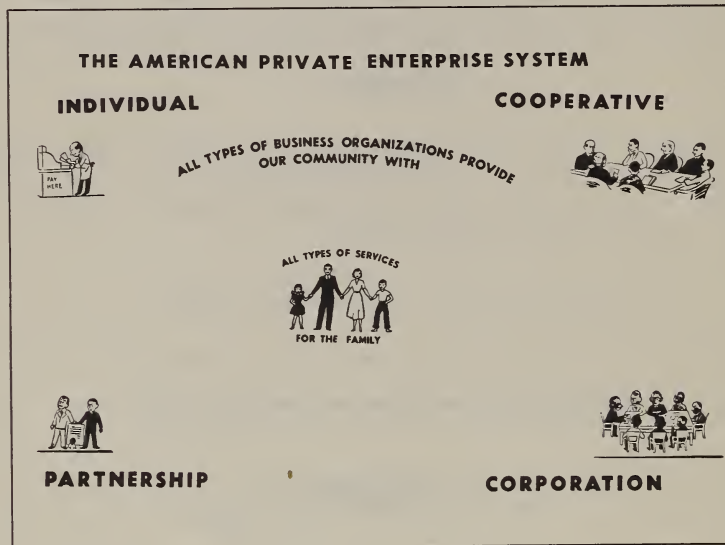
<sup>1</sup>Thirty-five millimeter color slides for use in presenting this illustrated talk may be obtained from the American Institute of Cooperation, 744 Jackson Place, N. W., Washington 6, D. C.



which induces people to engage in the enterprise. The basic function of business is to move goods and services from where they are produced along the lines of processing, handling, and other services to the final consumer. As the final consumer is the individual or the family, we consider the objective of business as being to take goods and services to the people. Thus, if the enterprise does not move some goods or services along the distribution line to the customer, it isn't a productive business, even though it may be a very profitable one. (Remove first slide.)

### SPEAKER B

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Who takes these goods and services along the line to the final consumer, or the family? First, in the upper left hand corner of this slide, we see the symbol of the individual businessman. Second, in the lower left hand corner, is the partnership. Third, in the lower right hand corner is the corporation.

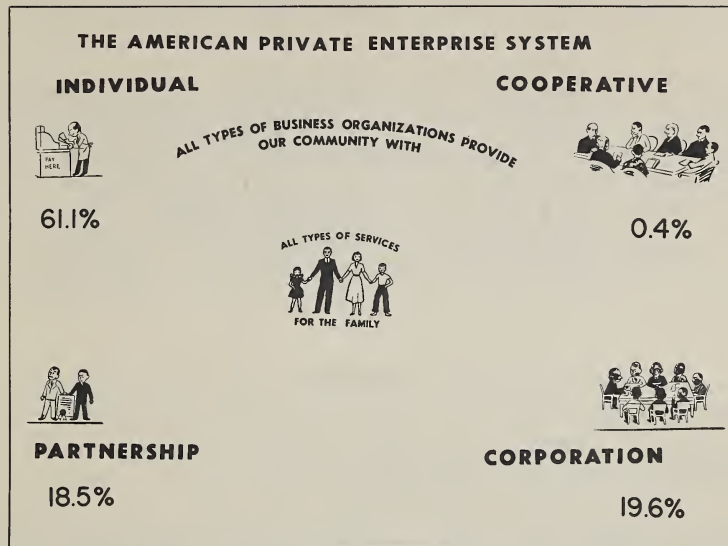
As far as the law is concerned, there are just three types of business firms in this country: the individual businessman, the partnership, and the corporation. But there is a fourth type. This fourth is a special type of corporation which we see in the upper right hand corner -- the cooperative.

It is just as important to understand the business relationships of these organizations as it is to understand their legal set-ups. Often someone remarks that there is not much difference between the various types of business firms. This seems true if you watch customers come and go from each and examine the nature of the business transactions. However, the relationships between the folks that own these business are quite different. (Remove second slide.)



## SPEAKER A

(Project third slide shown here)



What are some of the characteristics of these different types of business, why did they develop, and why are they on Main Street today? Let's assume that each of them is on Main Street because there is something helpful that they can do there. Folks do business with them because they feel that they get service from them that is not available from other sources. These services may be better goods, cheaper goods, a more convenient location, or "we just like the outfit." Because there is a need for them, they all have an equal right to be there.

Now, which appeared on Main Street first? In ancient times, individuals traded and exchanged goods with their neighbors. These individuals were the first businessmen.

Today there are still more individual businessmen than any other kind. As a result, people understand them the best. First among them is the American farmer. Individuals own and operate most of the farms in America. This ratio for individuals also holds true when we move to the city. For example, according to the latest available United States business census data of 1947-48, individual owners operated 61.1 percent, or 6 out of 10, of the retail, wholesale and manufacturing establishments.

Generally speaking the individual businessman is wholly responsible for his success or failure as an enterpriser. As long as he operates within the law, he is responsible to no one but himself and his family, of course. He makes his own business decisions, whether they are good or bad. He carries out these decisions and is completely responsible for them. He also receives all the benefits and returns of the business.

**SPEAKER B**

At first, individuals could handle all the business people needed. However, as society and business became more extensive and more complex, the simple operations of the individual businessman were not enough.

A temporary answer to this lack was the partnership or the No. 2 type of business on the slide. The first partnerships probably resulted when a son helped his father with his business and finally became a part of it. Two people can sometimes combine their abilities into a more effective business than they could by each operating alone. Also, one man may have capital while another has more technical, physical or mental ability. Thus, through their combined efforts, partners may better serve the public.

Business is more complicated for partners than for individuals. Two or more people have to get along and make decisions together that they used to make separately. They also share in the success or failure of the business, according to their interest in it.

The partnership definitely has its place in the business community. According to the last business census of 1947-48, 18½ percent, or about one out of five of the retail, wholesale and manufacturing establishments in the country were partnerships.

However, while filling some of the gaps left by individual business, as business progressed partnerships showed two major defects. One -- if one of the partners died, there was no arrangement to continue the business. Thus the business had to be liquidated or reorganized. Two -- individuals were liable for debts made by the firm. An irresponsible partner might spend too much of the firm's money, or incur debts the business could not meet. Creditors then came to the responsible partners to make good these business debts from their personal funds. Also, as the business grew, the financial demands might be more than two or three partners could meet. And more partners might complicate management.

**SPEAKER A**

Corporations were the solution to these problems. The Greeks, Phoenicians and Romans recognized these business limitations several hundred years B. C. So they created an artificial, invisible businessman called the corporation. This idea has spread throughout the civilized world. According to our business census, about one out of five of the retail, wholesale and manufacturing establishments in the country in 1947-48 were corporations. These percentages do not apply to volume of business. In volume of business the corporation is by far the most important type of business organization.

This invisible businessman -- the corporation -- created by the State corrected the defects of the partnership. The charter granted the corporation by the State assures the business will continue. If any one of the owners or stockholders leaves, it does not affect the continued operations of the organization.

This legal businessman, the corporation, owns property the same as any other business individual. This property is wholly separate from the individual holdings of the stockholders who have contributed to the property of the corporation by buying stock. Thus, the corporation, in general, assumes the business risks. In this way, the corporation meets some of the weaknesses of the earlier types of business in which losses fell on the individual owners.

### **SPEAKER B**

These three types of business substantially meet the demands of the business world. They approach 100 percent of the retail, wholesale and manufacturing firms, but do not quite reach it. Some business organizations do not fall within the strict classifications of these three types. Also, further progress and development brought a demand for a new set of business relationships. This new type of business has largely come about within the past 100 years, and has had its greatest expansion since 1900. This is the special type of corporation known as the cooperative.

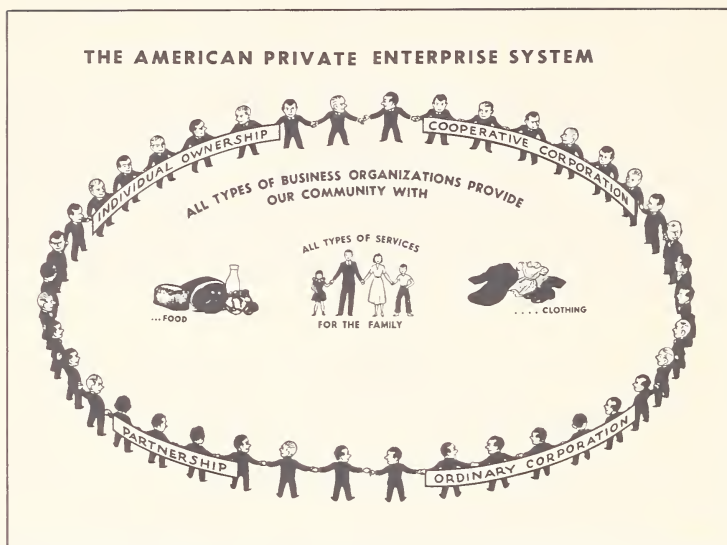
Besides being the newest on the business front, the farmer cooperative is also the smallest member in terms of numbers. Less than 1/2 of 1 percent of the business firms of the country are farmer cooperatives. In other words, only about one out of 250. Of course, this percentage is much higher in many sections of the country, including the farming centers.

In general, this type of corporation arose because farmers wanted to provide services for themselves which were especially adapted to their particular needs.

Thus, on Main Street we find various types of business have developed and expanded to meet the needs and demands of the growing business world. These businesses all have rights there, and they all have responsibilities. We believe if all businessmen recognized these two simple concepts of rights and responsibilities that it would go a long way towards clearing up many misunderstandings. Understanding would help create and maintain good business relations among all the various types of business that carry goods and services to the American family. (Remove third slide.)

## SPEAKER A

(Project fourth slide shown here)



Through the circle of the joined hands of the various business interests, we show the necessary relationships between them in carrying goods and services to the people. In the circle are symbols for food and clothes. These are two of the types of goods that our business friends carry along the distribution lines to us.

Let us take one of these symbols and follow it along the line. We will use the loaf of bread. We could also use the milk, the meat, the clothes, newspapers, automobiles, or most any other item and get a similar pattern.

Who produced the wheat from which the loaf of bread was made? Probably it was grown by one of America's leading individual businessmen, the independent farmer. The grain was cut with a binder or combine which could have been made by a firm representing any one of the four types of business. However, it is likely that it was made in the factory of a general corporation.

Where was the wheat stored? In storage operated by any one of the four, although there are 4 chances in 10 that the wheat was stored in a cooperative elevator. Who ground the wheat into flour? It could have been a mill operated by a representative of an individual, a partnership, or a general corporation. Who baked the flour into the loaf? This could have been done in a bakery owned by a representative of any one of the three types.

How did the loaf get to our table? If we bought it at a chain store, the bread came through a general corporation type of business. However,

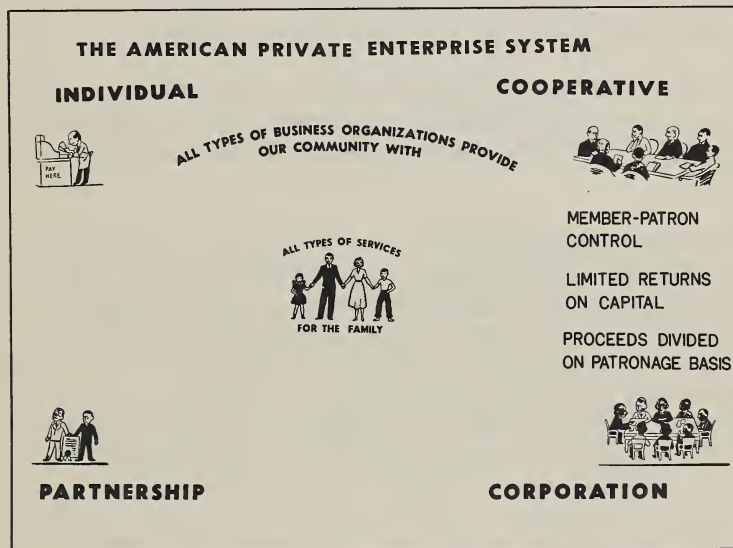


if we bought the bread at an independent grocery, it is very probable that the grocer obtained at least some of his goods through a cooperative purchasing organization to which he belonged.

So we go on through the entire business field. To better serve society, various types of business maintain the route from producer to consumer. No one has sole ownership to Main Street or to any part of it. Rather, they all have rights there and corresponding responsibilities to maintain which should be respected by each. (Remove fourth slide.)

## SPEAKER B

(Project fifth slide shown here)



We have talked about how these various types of business grew and how they join together in the job of taking goods and services to the people. Now, let us separate them into two groups and point out some of the differences between the comparative newcomer in the business world, the farmer cooperative, and its Main Street neighbors.

First we will separate the three other business types from the cooperative corporation. As a group, everyone of the business firms under individual, partnership, or general corporation management sells its goods and services to the public on a customer basis. There isn't an individual business in the country whose goods or services can be completely used by the family of that businessman. Though some of our self-sufficient farms in remote areas could almost do it. This dependence on each other continues through the partnerships and to the largest of the corporations.

Even though there may be hundreds of thousands of stockholders in a corporation, they do not use the services of the business in their owner

capacity. As owners they are investors in the business. As users, they are customers the same as the non-owner who uses its services. Therefore, in the case of every firm represented by any of these three, the customer enters into a transaction with the business, pays his bill, and that ends it. The good will of the business retains his patronage and causes him to return. If not satisfied, he goes some place else for his next purchase or sale. So, except in the case of some utilities, the customer voluntarily takes his patronage to these three kinds of business.

### SPEAKER A

Let's talk now about the farmer cooperatives. Here in contrast the owners of the business are also the users of its services. These owners formed their cooperative corporation to provide services they would themselves use. The owners are also the customers of their own business. Thus they tailor its services to their needs.

This new and different relationship made it necessary to set up certain principles to assure these services. These principles do not apply to the other types of business simply because the relationships do not exist.

The first principle of agricultural cooperation is member-patron control, or control by the people who are using the service. We said that the reason the owners set the organization up was to provide services they wanted themselves and would use themselves. With this objective, what is the best way to obtain these services? Obviously, the customers must control the organization that provides the services. In most cooperatives each member customer has 1 vote. He helps elect the board of directors. These directors administer the policies of the cooperative and select its manager.

What is the next important concern of the member? Most of us can answer that question. We want to get these services as cheaply as possible. Just what is the cheapest way to obtain goods and services? If they are produced efficiently, then the cheapest method would obviously be to obtain them at cost. This is just what the cooperatives attempt to help us do.

Obtaining these services at cost, however, involves two steps. The first of these is to limit returns on capital -- principle No. 2. Through this principle, members may receive an interest type of payment on the capital they have invested to obtain the services of the business. In other words when payments are made for capital returns, the cooperative pays for the use of the capital or the money invested just as it pays for labor, machinery or other costs of doing business.

The third principle of cooperation is to distribute proceeds on a patronage basis. After the cooperative pays its costs, if its operations are successful, there is money left over from overcharges to the members for goods or services they purchased, or from under-payment for products they marketed. The cooperative divides this money among the patrons.



Each patron receives a share of this money in proportion to his use of the services of the organization.

These three principles -- member patron control, limited returns on capital, and proceeds divided on a patronage basis -- guide associations that attempt to furnish needed services or goods at cost. Also these three principles make the cooperative the specialized type of corporation it is compared to the three other kinds of business on Main Street.

#### SPEAKER B

Thus, Main Street has responded, in its business development, to the many demands of the changing times. At first, the services of the individual businessman were adequate, and this is still, by far, the most numerous type. However, in time, the partnership was needed to supplement the individual businessman's services. When further progress outmoded the simple and temporary relationships of partners, the State provided for the artificial businessman, the corporation. This completed the legal business circle, and provided the needed flexibility, protection and permanence to Main Street.

However, in response to needs for services required by farmers, a special type of corporation, the farmer cooperative, has been developed. In contrast to the other three types of business which provide services to the public purely as customers, the farmer cooperative provides services to its members as owner-patrons.

All of these business types have come to Main Street in response to a need and an opportunity to assist in taking needed goods and services from the producers to the consumers. Thus, they all have equal rights on and the resulting responsibilities to Main Street.





